

GENERAL

S-S
CIA-S

- (CIA Comment: CIA believes that, although the USSR may attempt to make the postponement of a west German government a specific condition for lifting the blockade, the Kremlin may estimate that the effect on the Germans of removal of the blockade will alone halt or postpone the establishment of a west German state.)

DP78-0161740 MAR 01 1978 0056-0

2. US policy on Austrian treaty negotiations--The Department of State has instructed US representative Reber at the Austrian treaty talks in London that if the current discussion on un-agreed articles should fail to facilitate general agreement, the discussion should be returned to the question of Austrian frontiers and reparations. The Department advises Reber that if the Soviet delegation does not at that time relax its support of the Yugoslav claims, he may seek adjournment of the conference, which would be resumed at a later date. The Department asserts that US objectives in the current review of unagreed articles should be to obtain the maximum possible agreement and to test Soviet intentions in regard to the ultimate conclusion of a treaty.

CIA-S

3. British views concerning MAP legislation--US Embassy London expresses the view, concerning US congressional legislation on the Military Aid Program (MAP), that there would be a strong adverse reaction in the UK if MAP were financed through cuts in ECA. The Embassy considers that despite British confidence in the US and the current assumption that US-UK unity is fundamental to British foreign and defense policy, a linking of MAP with ECA or the attaching of onerous or unilateral conditions to MAP would bring a strong British reaction. The Embassy believes that failure by Congress to pass MAP legislation would create grave doubts in the UK concerning US reliability in international affairs and would cause serious British concern over the psychological effect on the French.

S-S

FAR EAST

4. CHINA: Widening rift in Nationalist China--US Counselor Clark in Canton transmits a letter from Acting President Li Tsung-jen expressing the decision of his government to

CIA-S

~~CONFIDENTIAL~~
~~TOP SECRET~~

defend China's southwest and resist the Communists "to the last ditch." Clark reports that Li plans to have a showdown with Chiang Kai-shek over his insistence that Chiang and his followers recognize Li's supreme authority. Failing this, Li reportedly intends to remain in Kwangsi Province and direct from there the defense of the southwest, where he claims he has the support of local military leaders. Li requested that remaining ECA funds not be obligated without his prior approval and asked in particular that no ECA funds be used in Taiwan or other areas under Chiang Kai-shek's influence.

(CIA Comment: CIA believes that Li and Chiang will not find any amicable settlement for their differences, which are presently permitting the Chinese Communists to concentrate against one and then the other nationalist group, thus facilitating their conquest of all China.)

~~CONFIDENTIAL~~
~~TOP SECRET~~